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STATE PLS PASS EXIM FOR DIRECTOR RITA RODRIGUEZ AND
JULIE PENARO

STATE ALSO PLS PASS TO OPIC

USDOC FOR 3130/USFCS/OFO/DLACEY AND FOR
4331/IEP/WH/AD/WDES/ROCHERS/HLINDOW

E.O. 12356: DECL: OADR
TAGS: BEXP, EFIN, EPET, CO
SUBJECT: VISIT OF EXIM DIRECTOR RODRIGUEZ TO BOGOTA

REFS: (A) BOGOTA 02662, (B) STATE 043346

1. (LOU) SUMMARY:

DR. RODRIGUEZ' VISIT WAS A SUCCESS DESPITE LACK OF
PROGRESS ON THE PROBLEM OF THE MARCH 1985 EXIM
COMMITMENT TO CARBOCOL. FINANCE MINISTER AND HEAD OF
CARBOCOL BOTH EXPRESSED DESIRE TO RESOLVE PROBLEM, BUT
THEY CLEARLY EXPECT EXIM TO FIND THE SOLUTION. THE
MINISTER AND THE CENTRAL BANK MANAGER WERE INTERESTED IN
PROPOSAL TO "BUNDLE" EQUIPMENT PURCHASES INTO
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APPROPRIATE PROJECT PROPOSALS ELIGIBLE FOR LONG-TERM,
FIXED-RATE, FINANCING WITH EXIM GUARANTEE. MEETING WITH
DEFENSE MINISTER WAS BEST OF THE VISIT; THE MINISTRY IS

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J. OLSON
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PREPARING ANTI-NARCOTICS PLAN AND WILL PROVIDE MORE INFORMATION ON USE OF TRUCKS. EMBASSY WILL FOLLOW UP ON THE IDEA OF EXIM (AND PERHAPS OPIC AND OTHER USG AGENCIES) HOLDING SEMINAR IN CONJUNCTION WITH JULY TRADE FAIR. END SUMMARY

2. MONDAY, FEBRUARY 29

A. (C) EMBASSY BRIEFING

(1). BRIEFING BY AMBASSADOR, ADCM SPILLANE, POL
COUNSELOR MCCULLOCH AND MILGROUP COMMANDER COL. TORRES

B1

B. (LOU) ECOPETROL DIRECTOR CHONA

(1). CHONA EXPLAINED THAT ECOPETROL WAS A SEMI-AUTONOMOUS STATE CORPORATION UNDER THE MINISTRY OF ENERGY, BUT WAS NOT OFFICIALLY PART OF THE GOVERNMENT. ECOPETROL PAYS THE SAME 32 PERCENT INCOME TAX AS PRIVATE

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SECTOR CORPORATIONS, BUT ALSO PAYS AN ADDITIONAL 21 PERCENT ON PROFITS TO SUPPORT GOC NEEDS. HE WAS CLEARLY PROUD OF THE FACT THAT HE WAS THE FIRST PRESIDENT OF ECOPETROL (APPOINTED BY PRESIDENT OF THE COUNTRY) TO COME UP FROM THE RANKS OF ECOPETROL.

(2). REGARDING ELN (NATIONAL LIBERATION ARMY) ATTACKS ON THE CANO LIMON-COVENAS OIL PIPELINE, CHONA BLAMED THE CURRENT STRENGTH OF THE ELN ON EXTORTION PAYMENTS BY FOREIGN CONTRACTORS WHO BUILT THE LINE. HE CHARACTERIZED THE SITUATION AS "NOT CONTROLLABLE." RESPONSIBILITY FOR PIPELINE SECURITY WAS WITH THE COLOMBIAN MILITARY, NOT ECOPETROL. ECOPETROL'S JOB IS TO FIND AND PRODUCE OIL, NOT TO RUN A PRIVATE ARMY. THE MOST URGENT NEED IS FOR BETTER INTELLIGENCE ON ELN ACTIVITIES. THE PURCHASE OF MORE TANKS AND AIRPLANES IS NOT THE SOLUTION. THE ARMY MUST BE MORE AGGRESSIVE IN PREVENTING ATTACKS AND NOT JUST SHOWUP AFTERWARDS TO LOOK AT HOLES IN THE PIPELINE.

(3). CHONA DESCRIBED THE CAMPAIGN BY ECOPETROL AND THE GOC TO EDUCATE THE COLOMBIAN PUBLIC THAT BLOWING UP THE

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PIPELINE HURTS COLOMBIA MORE THAN IT DOES FOREIGN PARTNERS OCCIDENTAL AND SHELL. OVER 80 PERCENT OF OIL EXPORT REVENUES GO TO ECOPETROL AND THE GOC. THE CAMPAIGN ALSO STRESSES THE ECOLOGICAL DAMAGE CAUSED BY OIL SPILLS RESULTING FROM PIPELINE ATTACKS.

(4). IN DISCUSSING THE BROADER INSURGENCY PROBLEM, CHONA SPECULATED THAT THE GUERRILLA GROUPS HAD THREE SOURCES OF FUNDS: (A) EXTERNAL SUPPORT FROM CUBA AND THE USSR, (B) NARCOTICS ACTIVITIES, AND (C) EXTORTION THROUGH THREATS AND KIDNAPING. HE NOTED THAT AN ECOPETROL UNION LEADER WITH GUERRILLA CONNECTIONS WAS RECENTLY MURDERED BY THE RIGHT-WING GROUP MAS (DEATH TO KIDNAPERS) BECAUSE THE LEADER HAD BEEN INVOLVED IN SEVERAL KIDNAPINGS.

(5). CHONA SAID THE DECISION HAS BEEN MADE TO BUILD A NATURAL GAS PIPELINE FROM THE NORTH COAST TO BOGOTA, AND INVITATIONS FOR BIDS ON ENGINEERING CONTRACTS WILL BE ISSUED WITHIN THE NEXT TWO WEEKS. CONSTRUCTION SHOULD BEGIN THIS YEAR. WHILE THERE WAS OPPOSITION ON THE NORTH COAST TO BUILDING THE GAS PIPELINE, THE NORTH COAST NEED NOT WORRY SINCE THERE ARE 30 YEARS OF PROVEN CONFIDENTIAL

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GAS RESERVES AND MORE EXPLORATION IS PLANNED. THE GAS WILL BE USED IN THE CENTRAL PART OF THE COUNTRY TO SUBSTITUTE FOR DOMESTIC PETROLEUM IN INDUSTRY, TRANSPORTATION, HOME USE AND REFINING.

(6). ECOPETROL PLANS TO EXPAND THE EXISTING REFINERY AT BARRANCABERMEJA AND TO BUILD A NEW REFINERY IN THE MAGDALENA VALLEY NEAR PUERTO SALGAR. THE NEW REFINERY WILL SERVICE THE BOGOTA AREA. INVITATIONS TO BID ON CONSTRUCTION OF THIS NEW REFINERY WILL BE ISSUED THIS MONTH, CHONA SAID.

(7). CHONA OUTLINED ECOPETROL'S OTHER BUILDING PROGRAMS: A NEW PIPELINE SYSTEM SHOULD BE FINISHED IN OCTOBER THAT WILL MOVE 100,000 BPD OF CRUDE WEST OUT OF THE CENTRAL LLANOS TO CONNECT WITH THE NORTH-SOUTH PIPELINE SYSTEM IN THE MAGDALENA VALLEY AT VELASQUEZ; AN ADDITIONAL NORTH-SOUTH LINE IS TO BE BUILT IN THE VALLEY TO CARRY CRUDE FROM THE NEW LLANOS LINE AND FROM NEW PRODUCTION IN THE MIDDLE MAGDALENA AREA.

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(8). CHONA SAID COLOMBIA HAS TWO BILLION BARRELS OF PROVEN CRUDE RESERVES AND HOPES TO FIND ANOTHER TWO BILLION THROUGH AN EXTENSIVE EXPLORATION PROGRAM. SEVENTY EXPLORATION WELLS WERE DRILLED IN 1987, AND CHONA HOPES DO DRILL EVEN MORE IN 1988. TWENTY-THREE CONTRACTS WERE SIGNED WITH FOREIGN COMPANIES LAST YEAR, AND HE EXPECTS TO SIGN ANOTHER 30 CONTRACTS THIS YEAR. TOTAL CRUDE PRODUCTION IS PRESENTLY ABOUT 400,000 BPD. WHEN THE NEW CENTRAL LLANOS LINE COMES ON STREAM, PRODUCTION WILL INCREASE TO 500,000 BPD, AND WILL INCREASE TO 600,000 BPD WHEN THE NEW MAGDALENA LINE IS COMPLETED.

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(9). IN RESPONSE TO A QUESTION FROM DR. RODRIGUEZ, CHONA SAID HE THOUGHT WORLD OIL PRICES WOULD STAY IN THE 13-18 DOLLAR PER BARREL RANGE FOR THE NEXT 3-4 YEARS. FOUR YEARS FROM NOW HE EXPECTED THE PRICE TO BE OVER 20 DOLLARS PER BARREL. HE WAS QUITE DEFINITE THAT COLOMBIA HAD NO INTENTION OF JOINING OPEC.

(10). ASKED ABOUT ECOPETROL'S RELATIONSHIP WITH CARBOCOL, CHONA SAID ECOPETROL OWNS 59 PERCENT OF CARBOCOL AND IS BEING ASKED TO TAKEOVER SOME OF CARBOCOL'S FOREIGN DEBT. HE ADMITTED HE WAS UNDER CONSIDERABLE POLITICAL PRESSURE TO HELP BAIL OUT CARBOCOL, AND HIS RELUCTANCE TO DO THIS WAS CLEAR. HE EXPRESSED CONCERN THAT RESOURCES TRANSFERRED TO CARBOCOL COULD REDUCE HIS EXPLORATION PROGRAM.

C. (LOU) FINANCE MINISTER ALARCON

(1). DR. RODRIGUEZ REVIEWED EXIM PROGRAMS AND SUGGESTED THAT COLOMBIA DO MORE TO "BUNDLE" EQUIPMENT PROPOSALS FROM U.S. SUPPLIERS INTO APPROPRIATE PROJECT PROPOSALS WHICH MIGHT BE ELIGIBLE FOR EXIM LONGER-TERM GUARANTEES. THIS COULD ALLOW COLOMBIA ACCESS TO NEW SOURCES OF CREDIT AT LONGER TERM AND AT LOWER COST FIXED

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INTERNATIONAL CREDIT FOR THE FIRST TIME. IF PROPERLY STRUCTURED, THIS TYPE OF PROJECT BORROWING COULD BE GUARANTEED 85 PERCENT BY EXIM AND 15 PERCENT BY COMMERCIAL BANKS. THE EXIM GUARANTEE WOULD BE EFFECTIVE WHEN ACTUAL DISBURSEMENTS FOR EXPORTS WERE MADE.

(2). ALARCON EXPRESSED INTEREST IN THIS IDEA AND SAID HE WOULD ASK HIS STAFF TO STUDY IT. HE THOUGHT EQUIPMENT ORDERS COULD BE "BUNDLED" UNDER VARIOUS INDUSTRIAL DEVELOPMENT PLANS. HE SUGGESTED THAT DR. RODRIGUEZ DISCUSS THE PROPOSAL FURTHER WITH BANCO DE LA REPUBLICA MANAGER ORTEGA. WHILE THIS SEEMED LIKE A GOOD IDEA, ALARCON SAID IT WOULD NOT REPLACE THE NEED FOR CONTINUED LARGE BORROWING FROM COMMERCIAL BANKS TO FINANCE GOC INVESTMENT PROGRAMS. THE GOC NEEDS NEW LOANS AT LEAST EQUAL TO EXPECTED AMORTIZATIONS OVER THE NEXT FEW YEARS. NEGOTIATIONS WILL BEGIN THIS YEAR FOR ANOTHER LARGE CONSORTIUM LOAN SIMILAR TO THE BILLION DOLLAR "JUMBO" AND "CONCORDE" LOANS.

(3). DR. RODRIGUEZ AGREED THAT THE IDEA OF USING EXIM GUARANTEES TO FINANCE PROJECTS WAS NOT INTENDED TO REPLACE OTHER COEMERCIAL BORROWING BUT TO PROVIDE A NEW CONFIDENTIAL

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SOURCE OF CREDIT. JUST HOW THIS WOULD WORK WOULD DEPEND ON WHAT KIND OF PROPOSAL THE GOC COULD PUT TOGETHER FOR CONSIDERATION BY THE EXIM BOARD. SHE NOTED THAT DESPITE COLOMBIA'S SUCCESS WITH THE "JUMBO" AND "CONCORDE" LOANS, MOST COMMERCIAL BANKS ARE NOT ANXIOUS

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TO LEND TO LATIN AMERICAN COUNTRIES WITHOUT AN EXIM GUARANTEE. THE "JUMBO" AND "CONCORD" WERE BALANCE OF PAYMENTS LOANS, BUT MOST BANKS PREFER TO SEE THEIR MONEY GO INTO TANGIBLE PROJECTS.

(4). LUIS ALVARO SANCHEZ (WHO HAS BEEN NAMED TO REPLACE MAURICIO CABRERA AS DIRECTOR OF PUBLIC CREDIT) SAID THE LONG-TERM, FIXED-RATE ASPECTS OF DR. RODRIGUEZ' IDEA SOUNDED GOOD. HE WONDERED IF IT COULD BE USED TO DEAL WITH THE PROBLEM OF CARBOCOL'S CREDIT NEEDS.

(5). DR. RODRIGUEZ REPLIED THAT IT MIGHT WORK FOR NEW LOANS, BUT NOT FOR THE CONTINUING PROBLEM OF EXIM CREDIT 7402 AND GUARANTEE 7403 AUTHORIZED FOR THE CERREJON PROJECT IN MARCH 1985. SHE REFERRED TO THE FEBRUARY 1 LETTER FROM CHAIRMAN BOHN AND TO ALARCON'S REPLY RECEIVED BY EXIM ON THE 26TH. SHE EXPRESSED DISAPPOINTMENT THAT THE EXCHANGE OF LETTERS DID NOT SEEM TO HAVE MOVED THE PROBLEM ANY CLOSER TO SOLUTION.

(6). ALARCON REPEATED THE SUBSTANCE OF HIS LETTER: CARBOCOL DOES NOT HAVE LEGAL AUTHORITY TO COMMIT COLOMBIA TO A CREDIT AGREEMENT UNTIL THAT AGREEMENT HAS BEEN PROPERLY REGISTERED WITH THE BANCO DE LA REPUBLICA (COLOMBIA'S CENTRAL BANK). ALARCON MADE IT CLEAR HE BELIEVES IT IS UP TO EXIM TO FIND A SOLUTION TO THIS PROBLEM.

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(7). DR. RODRIGUEZ POINTED OUT THAT EXIM HAS BEEN LEGALLY COMMITTED TO THE TERMS OF THE CERREJON LOAN/GUARANTEE SINCE APPROVAL BY THE BOARD IN 1985 AND FUNDS WERE OBLIGATED OUT OF EXIM'S 1985 BUDGET. IT DID NOT SEEM FAIR FOR EXIM TO MAKE A BINDING COMMITMENT WHEN THERE WAS NO SIMILAR COMMITMENT ON THE OTHER SIDE. SHE SAID EXIM DOES NOT WANT TO ESTABLISH A PRECEDENT BY CHANGING AN INTEREST RATE AFTER A COMMITMENT HAS BEEN MADE. EXIM HAS NEVER BACKED OUT OF A COMMITMENT WHEN RATES WENT UP, NOR DOES IT WISH TO DO SO WHEN RATES GO DOWN. SHE REFERRED TO A EXIM LOAN COMMITMENT TO TELECOM WHICH IS AT A LOWER INTEREST RATE THAN THE CURRENT MARKET. EVEN THOUGH THE TELECOM LOAN IS PROBABLY NOT YET REGISTERED, EXIM IS PREPARED TO MAINTAIN THAT LOWER INTEREST RATE. IT SHOULD WORK THE SAME WAY WHEN RATES

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GO DOWN AS IN THE CASE OF THE COMMITMENT TO CERREJON.
SHE SUGGESTED THE BEST SOLUTION MIGHT BE FOR CARBOCOL TO
CANCEL THE LOAN/GUARANTEE AND PAY THE OUTSTANDING FEES.
THE FEES WOULD BE LESS THAN THE DIFFERENCE IN INTEREST
RATES.

(8). ALARCON AGAIN SAID THAT CARBOCOL HAS NO AUTHORITY
TO COMMIT NOR TO PAY ANY FEES IN CONNECTION WITH
CANCELLATION OF A CREDIT NOT PROPERLY REGISTERED.

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NEVERTHELESS, HE TRULY WANTED TO FIND A SOLUTION TO THE
PROBLEM. IT HAD BOTH A LEGAL AND POLITICAL ASPECTS
WHICH WERE DIFFICULT FOR BOTH SIDES. HE WAS AFRAID OF A
POSSIBLE INVESTIGATION BY THE COLOMBIAN ATTORNEY
GENERAL'S OFFICE. WHILE DETAILS COULD NOT BE WORKED OUT
IN THIS MEETING, ALARCON ASKED THAT EXIM TRY TO FIND A
SOLUTION MORE FAVORABLE TO COLOMBIA.

(9). DR. RODRIGUEZ SAID THE EXIM BOARD HAS REVIEWED THE
CERREJON PROBLEM THREE TIMES WITHOUT FINDING A BETTER
SOLUTION. IF THIS PROBLEM IS NOT RESOLVED SOON, IT
COULD HAVE AN IMPACT ON FUTURE EXIM NEGOTIATIONS WITH
COLOMBIA.

(10). ALARCON WONDERED IF THE PEFCO PART OF THE PROBLEM
COULD BE DEALT WITH SEPARATELY. HE SUGGESTED THAT
ANOTHER LOAN FROM PEFCO AT CURRENT RATES BE COMBINED
WITH THE 40 MILLION USD LOAN TO CERREJON TO PROVIDE A

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BLENDED RATE WHICH THE GOC MIGHT BE ABLE TO ACCEPT. DR. RODRIGUEZ SAID THAT PEFCO WORKS ONLY WITH AN EXIM GUARANTEE.

(11). DR. RODRIGUEZ MENTIONED THAT THERE WERE TWO OTHER CONFIDENTIAL

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CREDIT AGREEMENTS OUTSTANDING FOR ALMOST TWO YEARS PENDING CLOSING, BUT SHE WOULD TAKE THOSE UP LATER BY LETTER. SHE SAID SHE WAS IN CHARGE OF EXIM'S ECONOMIC RESEARCH DEPARTMENT AND WOULD LIKE TO RECEIVE GOC BALANCE OF PAYMENTS AND DEBT PROJECTIONS ON A REGULAR BASIS. ALARCON SAID A NEW SET OF PROJECTIONS WERE IN PROCESS, AND HE WOULD BE HAPPY TO SEND THEM TO DR. RODRIGUEZ JUST AS SOON AS THEY ARE APPROVED BY CONPES (THE MINISTERIAL-LEVEL ECONOMIC AND SOCIAL COUNCIL).

D. (U) LUNCHEON WITH COLOMBIAN BANKERS

(1). DR. RODRIGUEZ ATTENDED A LUNCHEON HOSTED BY THE BANCO DE BOGOTA. ATTENDEES INCLUDED THE INTERNATIONAL VICE PRESIDENTS OF COLOMBIAN BANKS HEAVILY INVOLVED IN TRADE FINANCING AND OTHER INTERNATIONAL OPERATIONS.

(2). DR. RODRIGUEZ EXPLAINED EXIM'S NEW BANKING PHILOSOPHY, THE ABILITY OF FOREIGN BANKS TO DIRECTLY ACCESS EXIM, AND THE GENERAL TERMS AND CONDITIONS OF EXIM LENDING. THE BANKERS WERE PARTICULARLY INTERESTED IN THE POSSIBILITY OF DIRECT ACCESS TO EXIM AND IN POSSIBLE MECHANISMS FOR PRIOR APPROVAL OF LARGE GUARANTEE LINES THAT THEY COULD DIVIDE UP BETWEEN BANKS AND AMONG SMALL BORROWERS (I.E., IN THE 25,000 TO 100,000 USD RANGE). THEY WERE SURPRISED THAT EXIM PROVIDED LENDING AND/OR GUARANTEES FOR AMOUNTS AS LITTLE AS 50,000 USD. THE MEETING WAS PARTICULARLY SUCCESSFUL IN EXPLAINING FLEXIBILITY IN EXIM PROGRAMS AND THE ABILITY TO ACCESS THE BANK DIRECTLY. THE BANKERS AGREED THAT THE INFORMATION PROVIDED BY DR. RODRIGUEZ NEEDS TO BE SHARED. THEY SAID THEY WOULD PRESENT IT TO THOSE BANKS THAT DID NOT PARTICIPATE IN THE LUNCHEON AT THE CONFIDENTIAL

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NEXT MONTHLY MEETING OF THE INTERNATIONAL BANKING COMMITTEE OF THE COLOMBIAN BANKING ASSOCIATION.

(3). THE LUNCHEON ALSO OFFERED BANKERS AN OPPORTUNITY TO BRIEF DR. RODRIGUEZ ON THE IMPROVEMENT OF THE COLOMBIAN BANKING SECTOR DURING THE PAST YEAR AND ON COLOMBIA'S STRONG ECONOMIC PERFORMANCE.

E. (LOU) CARBOCOL PRESIDENT MEJIA

(1). DR. RODRIGUEZ NOTED REPORTS IN THE BOGOTA PRESS OF STRIKES AT THE CERREJON MINE. MEJIA SAID THE REPORTS WERE A BIT OUT OF DATE SINCE THE WORKERS WERE BACK ON THE JOB. THIS WAS JUST ONE OF A SERIES OF SHORT WORK STOPPAGES AND SLOWDOWNS INTENDED TO PUT PRESSURE ON CARBOCOL AND EXXON AS PART OF THE BIENNIAL LABOR CONTRACT NEGOTIATIONS.

(2). DR. RODRIGUEZ DESCRIBED HER DISCUSSION WITH FINANCE MINISTER ALARCON AND ASKED WHAT WAS DIFFERENT ABOUT CARBOCOL IN SIGNING LOAN CONTRACTS. MEJIA REPLIED THAT ONE DIFFERENCE IS THAT HE WAS NOT PRESIDENT OF CARBOCOL WHEN THE 1985 LOAN/GUARANTEE AGREEMENT WAS SIGNED (MEJIA WAS APPOINTED BY NEWLY ELECTED PRESIDENT BARCO IN SEPTEMBER 1986).

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(3). DR. RODRIGUEZ SAID THE 550 MILLION USD CREDIT AND GUARANTEE AUTHORIZED IN 1982 IS ALMOST COMPLETELY

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UTILIZED, AND SHE ASKED IF CARBOCOL DID NOT NEED THE AUGUST 1985 COMMITMENT WHICH EXIM THOUGHT WAS TO BE USED IN 1986-87.

(4). MEJIA ANSWERED THAT CARBOCOL'S 1986-87 FINANCIAL NEEDS WERE TAKEN CARE OF OUT OF PROCEEDS FROM THE "JUMBO" LOAN AND WITH FUNDS FROM ECOPETROL. THERE IS A POSSIBILITY OF PASSING THE 550 MILLION USD DEBT TO EXIM TO ECOPETROL FOR SERVICING. CARBOCOL IS ALSO DUE TO RECEIVE 260 MILLION USD FROM THE "CONCORDE" LOAN WHICH WILL BE DISBURSED LATER THIS YEAR. IN ADDITION, THE JAPANESE EXIM WAS OFFERING CREDIT FOR JAPANESE EQUIPMENT. PRESENTLY ALL EQUIPMENT AT CERREJON IS EITHER U.S. OR CANADIAN, AND THE INTRODUCTION OF JAPANESE EQUIPMENT COULD BE A PROBLEM. NEVERTHELESS, MEJIA SAID CARBOCOL STILL WANTS THE NEW EXIM LOAN/GUARANTEE BUT AT A CURRENT INTEREST RATE. HE NOTED THAT EXIM'S CREDITS WERE THE MOST EXPENSIVE IN CARBOCOL'S DEBT PORTFOLIO.

(5). DR. RODRIGUEZ RESPONDED THAT IF EXIM CREDITS WERE CONFIDENTIAL

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EXPENSIVE, THAT WAS JUST BECAUSE THOSE WERE THE MARKET CONDITIONS AT THE TIME OF THE LOAN. TO REDUCE THE INTEREST RATE ON A LOAN COMMITMENT WOULD SET AN UNDESIRABLE PRECEDENT. THE BEST SOLUTION MIGHT BE TO JUST CANCEL THE OUTSTANDING COMMITMENT. MEJIA AGREED, BUT SAID THERE IS NO WAY CARBOCOL CAN PAY THE 4 MILLION USD IN FEES SINCE THE LOAN/GUARANTEE WAS NEVER PROPERLY REGISTERED.

(6). WITH REGARD TO PEFCO, MEJIA MADE THE SAME SUGGESTION AS ALARCON: SPLIT OFF THE PEFCO PART OF THE PROBLEM AND COMBINE WITH A NEW, LOWER-RATE, PEFCO LOAN. DR. RODRIGUEZ MADE THE SAME POINT THAT PEFCO NORMALLY OPERATES ONLY WITH AN EXIM GUARANTEE. SHE ALSO NOTED THAT EXIM FEES CONTINUE TO ACCUMULATE. MEJIA TOOK THE SAME LINE AS ALARCON: HE WANTS VERY MUCH TO RESOLVE THIS PROBLEM, BUT HE LOOKS TO EXIM TO COME UP WITH THE SOLUTION.

(7). MEJIA SAID PRODUCTION AT CERREJON IS SOMEWHAT BEHIND SCHEDULE. PRODUCTION THIS YEAR IS EXPECTED TO BE ABOUT 10.8 MILLION TONS WHEN THE ORIGINAL PROJECTION FOR

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1988 WAS 12 MILLION TONS. HE THOUGHT THE TARGET OF 15 MILLION TONS IN 1989 WOULD BE MET, HOWEVER. IN 1987, VARIABLE COSTS WERE REDUCED TO 28.50 USD PER TON WHICH IS JUST UNDER THE BREAK-EVEN POINT OF 28.70 USD PER TON. VARIABLE COSTS ARE EXPECTED TO DECLINE AS PRODUCTION INCREASES AND SHOULD BE ABOUT 22 USD PER TON IN 1988 AND 17 USD PER TON IN 1989. UNFORTUNATELY, CARBOCOL WILL CONTINUE TO LOSE MONEY THIS YEAR DUE TO 8-10 USD PER TON DEBT SERVICE COSTS. IN RESPONSE TO A QUESTION FROM DR. RODRIGUEZ, MEJIA ADMITTED THAT CARBOCOL WILL PROBABLY HAVE AN OVERALL LOSS ON THE CERREJON PROJECT. THE ONLY CONFIDENTIAL

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SOLUTION IS TO INCREASE PRODUCTION BEYOND CURRENT PROJECTIONS.

(8). ON THE TREND OF WORLD COAL PRICES, MEJIA SAID CARBOCOL HAS MADE TWO PROJECTIONS, ONE OPTIMISTIC AND ONE PESSIMISTIC. THE OPTIMISTIC PROJECTION CALLS FOR A 1.5 PERCENT REAL INCREASE IN PRICE EACH YEAR FROM 1988 TO 1992; FROM 1993 THROUGH THE END OF THE PROJECT (2009), THE REAL ANNUAL INCREASE WOULD BE 3.0 PERCENT. THE PESSIMISTIC PROJECTION HOLDS THE REAL INCREASE AT 1.5 PERCENT PER YEAR UNTIL 2009.

(9). ON THE PRESENT MIX OF EQUIPMENT, MEJIA SAID THERE ARE 140 OF THE LARGE EUCLID TRUCKS, ABOUT HALF OF WHICH CAME FROM CANADA. THE ONLY DIFFERENCE BETWEEN THE U.S. AND THE CANADIAN TRUCKS IS THE ENGINE, WHICH IS OF UK ORIGIN IN THE CANADIAN TRUCKS WHILE THE AMERICAN TRUCKS USE AMERICAN ENGINES. THERE IS NO DIFFERENCE IN PRICE BETWEEN THE U.S. AND CANADA, BUT CANADA OFFERED LOWER-COST FINANCING. IF EXIM FINANCING IS NOT AVAILABLE, THE NEXT TRUCK PURCHASE WILL PROBABLY BE FROM THE CANADIANS. OVER THE NEXT TWO YEARS, CARBOCOL PLANS TO BUY ANOTHER LARGE ELECTRIC SHOVEL AND SOME ADDITIONAL RAILROAD CARS, AS WELL AS MORE TRUCKS.

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(10). AT THE CLOSE OF THE MEETING, DR. RODRIGUEZ ASKED FOR PROJECTIONS ON COSTS, PRODUCTION, PRICES, EQUIPMENT NEEDS AND POTENTIAL SUPPLIERS. MEJIA GAVE HER A LARGE NUMBER OF DOCUMENTS AT THE AMBASSADOR'S RESIDENCE LATER THAT EVENING

F. (LOU) CENTRAL BANK MANAGER ORTEGA

(1). DR. RODRIGUEZ REVIEWED THE IDEA PROPOSED TO FINANCE MINISTER ALARCON OF "BUNDLING" PRODUCT PURCHASES INTO APPROPRIATE PROJECTS. SHE EMPHASIZED THAT THE EXIM GUARANTEE WOULD ONLY BECOME EFFECTIVE WHEN ACTUAL DISBURSEMENTS ARE MADE FOR U.S. EXPORTS. PURCHASES BY BOTH THE PUBLIC AND PRIVATE SECTORS COULD BE INCLUDED IN THIS SCHEME. SHE ALSO EXPLAINED THAT WHILE SPECIFIC EQUIPMENT PURCHASES ARE LIMITED TO 5-YEAR CREDITS, UNDER THE OECD CONSENSUS AGREEMENT, PROJECTS ARE ELIGIBLE FOR LONGER TERMS.

(2). ORTEGA DESCRIBED COLOMBIA'S CURRENT LINES OF CREDIT FROM THE WORLD BANK, IDB AND COMMERCIAL SOURCES. HE SAID THERE WILL BE A GAP THIS YEAR UNTIL NEW LINES ARE NEGOTIATED IN 1989. HE EXPRESSED CONCERN THAT EXIM CONFIDENTIAL

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GUARANTEES MIGHT REPLACE COMMERCIAL LOANS. HE SAID THE MULTILATERAL LENDERS WILL NOT ACCEPT A REDUCTION IN COMMERCIAL BANK EXPOSURE IN COLOMBIA. UNFORTUNATELY, ANOTHER SYNDICATED LOAN LIKE THE "JUMBO" AND "CONCORDE" WILL PROBABLY NOT BE SUCCESSFUL. THE U.S. COMMERCIAL BANKS ARE DIVIDED ON COLOMBIA'S CHANCES FOR ANOTHER BIG

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SYNDICATED LOAN. MORE INNOVATIVE FINANCING IS NEEDED, AND THE "BUNDLING" IDEA MIGHT BE A POSSIBILITY. ORTEGA ASKED IF THE EXIM GUARANTEE WOULD COVER BORROWING IN EUROPE OR JAPAN.

(3). DR. RODRIGUEZ SAID SHE DID NOT THINK EXIM GUARANTEES WOULD REPLACE COMMERCIAL BANK LENDING BUT WOULD TAP NEW SOURCES OF FINANCING. EXIM GUARANTEE COULD BE APPLIED TO BORROWING OUTSIDE THE U.S. SO LONG AS THE CREDITS ARE USED TO FINANCE THE EXPORT OF U.S. PRODUCTS.

(4). ORTEGA SAID HE WOULD CONSULT WITH THE FINANCE MINISTER ON THE IDEA OF USING EXIM GUARANTEES MORE IMAGINATIVELY.

(5). WHEN DR. RODRIGUEZ RAISED THE CARBOCOL PROBLEM, ORTEGA MADE IT CLEAR HE DID NOT WANT TO GET INVOLVED. HE CONFIRMED, HOWEVER, THAT THERE IS NO COMMITMENT UNDER COLOMBIAN LAW UNTIL THE LOAN IS REGISTERED. HE RECOGNIZED THAT SINCE REGISTRATION CAN TAKE MONTHS, THERE WAS A RISK FOR THE LENDING INSTITUTION. IF THE LOAN IS NOT REGISTERED, NO DOLLAR PAYMENTS CAN BE AUTHORIZED FOR DEBT SERVICING OR FOR FEES.

G. (U) DRINKS AT THE AMBASSADOR'S RESIDENCE

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(1). AMBASSADOR HOSTED DRINKS FOR DR. RODRIGUEZ AND A SMALL GROUP OF KEY COLOMBIAN BUSINESSMEN. THE BUSINESSMEN WERE PRINCIPALLY INTERESTED IN WAYS IN WHICH EXIM COULD EASE THE LOAN APPLICATION/APPROVAL PROCESS. THEY WERE ALSO INTERESTED IN LOAN AMOUNTS AND TERMS AVAILABLE FROM EXIM FOR THEIR FINANCING NEEDS. AS IN THE LUNCHEON WITH BANKERS, THE BUSINESSMEN WERE SURPRISED THAT AMOUNTS AS LOW AS 50,000 USD WERE AVAILABLE. DR. RODRIGUEZ WAS ABLE TO AGAIN EXPLAIN NEW EXIM OPERATING PHILOSOPHY, TERMS AND AVAILABILITY OF FUNDS WITH THOSE MOST LIKELY TO SEEK ACCESS.

3. TUESDAY, MARCH 1

A. (U) BREAKFAST WITH INTERAMERICAN ACTION

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- COMMITTEE (IAAC) BOARD OF DIRECTORS

(1). THE IAAC HOSTED BREAKFAST FOR DR. RODRIGUEZ, ITS BOARD OF DIRECTORS, AND SELECTED BUSINESSMEN FROM OUTSIDE OF BOGOTA. DR. RODRIGUEZ EXPLAINED THE NATURE OF EXIM FINANCING AND GUARANTEE PROGRAMS AND THE NEW APPROACHES OF EXIM PROGRAMS. INVITEES WERE INTERESTED IN THE PRESENTATION AND ASKED QUESTIONS REGARDING ACCESS TO PROGRAMS, AMOUNTS AVAILABLE FOR DIFFERENT TYPES OF

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TRANSACTIONS, AND RATES AND SPREADS.

(2). DR. RODRIGUEZ STRESSED SEVERAL TIMES THE COMPETITIVE NATURE OF EXIM PROGRAMS. INVITEES NOTED THAT EXIM PROCEDURES AND THEIR LACK OF KNOWLEDGE THEREFORE, SPECIFICALLY THAT AMOUNTS AS LOW AS 50,000 USD WERE AVAILABLE, WAS PROBABLY KEEPING A NUMBER OF SMALL TO MEDIUM SIZED COMPANIES FROM ACCESSING EXIM PROGRAMS. THE SUGGESTION WAS MADE THAT WHAT WAS NEEDED WAS A SEMINAR IN CONJUNCTION WITH BANKS THAT WOULD SHOW IMPORTERS AND INVESTORS THE STEPS NEEDED IN ORDER TO ARRANGE EXIM FINANCING OR GUARANTEE COVERAGE. THE IDEA OF USING THE BOGOTA TRADE FAIR AS A VEHICLE FOR THE SEMINAR WAS RAISED BY THE AMBASSADOR AND SECONDED BY INVITEES.

B. (C) MINISTER OF DEFENSE SAMUDIO

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(1). GENERAL SAMUDIO IMMEDIATELY RAISED THE QUESTION OF AN EXIM GUARANTEE FOR THE PURCHASE OF A VARIETY OF TRUCKS AND OTHER VEHICLES FOR THE COLOMBIAN ARMY. HE SAID EXIM HAD FINANCED TRUCKS AND OTHER MILITARY EQUIPMENT IN THE PAST, AND HE DID NOT UNDERSTAND WHY CONFIDENTIAL

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THERE HAD BEEN A CHANGE IN POLICY. HE NOTED THAT THE TRUCKS TO BE PURCHASED WERE STRICTLY CIVILIAN MODELS WITH NO MODIFICATIONS FOR MILITARY USE.

(2). DR. RODRIGUEZ DESCRIBED THE LEGAL RESTRICTION AGAINST EXIM FINANCING OF MILITARY EQUIPMENT. THE U.S. CONGRESS HAD CLEARLY INTENDED THAT MILITARY SALES BE FINANCED THROUGH FMS, AND THAT EXIM'S ROLE WAS TO FINANCE NON-MILITARY GOODS AND SERVICES. THIS WAS NOT A CHANGE IN EXIM POLICY, AND DR. RODRIGUEZ SAID EXIM'S RECORDS DID NOT INDICATE ANY HISTORY OF FINANCING VEHICLES FOR THE COLOMBIAN MILITARY.

(3). DR. RODRIGUEZ EXPLAINED THAT EXIM IS PREPARED TO FINANCE EQUIPMENT THAT HAS A HUMANITARIAN OR ANTI-NARCOTICS USE. WEAPONS WERE CLEARLY OUT, BUT EQUIPMENT FOR MILITARY SCHOOLS AND HOSPITALS WOULD BE ELIGIBLE FOR EXIM FINANCING. IT IS THE GREY AREA BETWEEN THESE TWO EXTREMES THAT RAISES PROBLEMS. THE BOARD RECENTLY APPROVED A GUARANTEE FOR THE PURCHASE OF COASTAL PATROL BOATS BY THE COLOMBIAN NAVY SINCE THESE BOATS WOULD BE USED IN THE ANTI-NARCOTICS EFFORT. WHETHER TRUCKS FOR THE ARMY WOULD BE ELIGIBLE WOULD DEPEND ON HOW THEY WERE USED. IF THE MINISTRY OF DEFENSE COULD DEMONSTRATE THAT THE TRUCKS WOULD BE USED FOR NON-MILITARY PURPOSES (E.G., ANTI-NARCOTICS, ROAD BUILDING OR OTHER CIVIC ACTION PROJECTS), THEN EXIM COULD PROBABLY HELP. FOR DUMP TRUCKS OR OTHER SPECIAL PURPOSE VEHICLES THERE WAS NOT MUCH OF A PROBLEM; HOWEVER, GENERAL PURPOSE TRUCKS, THAT COULD CARRY EITHER BRICKS OR SOLDIERS, COULD BE MORE DIFFICULT TO JUSTIFY.

(4). GENERAL SAMUDIO SAID THAT SINCE NARCOTICS
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TRAFFICKERS ARE WELL ARMED, IT IS DIFFICULT TO DISTINGUISH BETWEEN ANTI-NARCOTICS ACTIVITIES AND MILITARY COMBAT. THE GENERAL EXPLAINED THAT HIS MINISTRY ENCOMPASSES BOTH THE ARMED FORCES AND THE NATIONAL POLICE, AND THEY HAVE OVERLAPPING FUNCTIONS. THE MILITARY HAS SOME POLICE RESPONSIBILITIES UNDER THE NEW DECREE ON "THE DEFENSE OF DEMOCRACY." BOTH ORGANIZATIONS ARE INVOLVED IN ANTI-NARCOTICS ACTIVITIES. MILITARY INTELLIGENCE, FOR EXAMPLE, GATHERS INFORMATION ON NARCOTICS TRAFFICKERS. THE ARMY IS CURRENTLY VERY ACTIVE IN THE MEDELLIN AREA SEARCHING FOR NARCOTICS HIDEOUTS, AND THE SOLDIERS ARE MOVING BY TRUCK. OFTEN WHEN THE ARMY ATTEMPTS TO DESTROY COCA FIELDS OR COCAINE LABORATORIES, THEY FIND THE FIELDS AND LABS PROTECTED BY ARMED GUERRILLAS. ALSO, AS MINISTER OF DEFENSE, SAMUDIO SITS ON THE COUNCIL ON DANGEROUS DRUGS AND HELPS TO MAKE THE GOC'S POLICY ON NARCOTICS.

(5). U.S. MILGROUP COMMANDER COL. TORRES POINTED OUT THAT THE ARMY IS ALSO RESPONSIBLE FOR BUILDING PENETRATION ROADS AND OTHERWISE EXTENDING GOVERNMENT PRESENCE IN THE MOST UNDERDEVELOPED PARTS OF THE COUNTRY. THIS "NATION BUILDING" ACTIVITY ALSO LEADS TO CONFRONTATIONS WITH INSURGENT GROUPS.

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(6). DR. RODRIGUEZ SAID THAT WHILE EXIM CAN AND DOES SUPPORT ANTI-NARCOTICS PROGRAMS, THE BANK CANNOT FINANCE EQUIPMENT FOR ANTI-INSURGENCY PURPOSES. WHILE THESE TWO

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ACTIVITIES MAY BE INTERTWINED IN COLOMBIA, DR. RODRIGUEZ SAID EXIM'S LEGAL CONSTRAINT MAKES IT NECESSARY THAT THEY BE CLEARLY SEPARATED WHEN REQUESTING EXIM LOANS OR GUARANTEES. THE EXIM STAFF NEEDS VERY SPECIFIC INFORMATION IN THIS REGARD IN ORDER TO COMPLY WITH U.S. LAW.

(7). DR. RODRIGUEZ WENT ON TO EXPLAIN THAT U.S. BANKS ARE RELUCTANT TO LEND TO COLOMBIA WITHOUT AN EXIM GUARANTEE. COLOMBIAN REQUIREMENTS ON TERMS, INTEREST RATES AND GRACE PERIODS ALSO MAKE LENDING DIFFICULT. THE REQUIREMENT FOR A TWO-YEAR GRACE PERIOD, FOR EXAMPLE, IS CONTRARY TO THE AGREEMENT AMONG MAJOR EXPORT CREDIT AGENCIES UNDER THE BERN UNION. THIS AGREEMENT SPECIFIES A SIX-MONTH GRACE PERIOD AND A MAXIMUM FIVE-YEAR TERM FOR FINANCING SPECIFIC PRODUCTS. THE GRACE PERIOD BEGINS WITH DELIVERY OF EQUIPMENT IN A PARTICULAR PURCHASE. IN THE CASE OF THE PATROL BOATS OFFERED BY SWIFTSIPS, THE ONLY WAY TO MEET THE GOC REQUIREMENT OF A TWO-YEAR GRACE PERIOD WOULD BE TO CONFIDENTIAL

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DELIVER THE BOATS 18-MONTHS AFTER PURCHASE WITH THE EXIM SIX-MONTH GRACE PERIOD BEGINNING WITH DELIVERY OF THE LAST BOAT. PROJECTS, ON THE OTHER HAND, CAN GET TERMS OF 8-10 YEARS, AND THE SIX-MONTH GRACE PERIOD BEGINS ONLY WHEN THE PROJECT IS COMPLETED AND BEGINS TO GENERATE REVENUES. FOUR PATROL BOATS ALONE, HOWEVER, WOULD BE HARD TO JUSTIFY AS A PROJECT, BUT MIGHT BE CONSIDERED IF INCLUDED AS PART OF A LARGER PROJECT.

(8). (EMBASSY NOTE: DECREE 1205 SPECIFIES THAT THE 64 MILLION USD CREDIT PACKAGE MUST HAVE AN EIGHT-YEAR AMORTIZATION, INCLUDING A SIX-MONTH GRACE PERIOD, BEGINNING WITH DELIVERY OF EQUIPMENT. WITHIN THIS PACKAGE, HOWEVER, CREDITS OF UP TO FIVE MILLION CAN HAVE A SIX-YEAR AMORTIZATION, INCLUDING A SIX MONTH GRACE, BEGINNING WITH THE SIGNING OF A LOAN CONTACT. THE FIRST SWIFTSIPS ORDER IS FOR TWO BOATS FOR A TOTAL OF 5.95 MILLION USD AND WOULD NOT/NOT BE ELIGIBLE FOR THE SIX-MONTHS GRACE FROM LOAN SIGNING UNLESS THE ORDER IS BROKEN INTO TWO PARTS OF ONE BOAT EACH. ANOTHER POSSIBILITY IS TO INCLUDE THE BOATS IN A LARGER PROJECT WITH THE TRUCKS AND OTHER EQUIPMENT. ACCORDING TO DECREE 1205, HOWEVER, A SIX-MONTH GRACE WOULD STILL

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APPLY TO DELIVERIES OF EQUIPMENT UNDER THE LARGER
PROJECT. END COMMENT)

(9). GENERAL SAMUDIO POINTED OUT THE APPARENT PARADOX
THAT IF THE TRUCKS WERE FINANCED UNDER FMS THERE WOULD
BE NO QUESTIONS ASKED; BUT EXIM FINANCING REQUIRES A
DETAILED EXPLANATION OF HOW THE TRUCKS WILL BE USED.
AMBASSADOR GILLESPIE SAID FMS AND EXIM ARE TWO DIFFERENT
USG PROGRAMS WHICH SHOULD NOT COMPETE WITH EACH OTHER.
IT WAS THE INTENT OF THE U.S. CONGRESS THAT THEY BE
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SEPARATE PROGRAMS WITH DIFFERENT OBJECTIVES.

(10). GENERAL SAMUDIO AGREED TO PROVIDE A DETAILED
PAPER EXPLAINING 1) THE OVERALL ORIGIN AND FUNCTIONS OF
THE MINISTRY OF DEFENSE, 2) THE UTILITY NATURE OF THE
TRUCKS, 3) THE OVERALL TIES BETWEEN NARCOTICS
TRAFFICKERS AND THE GUERRILLAS AND 4) HOW THE TRUCKS
WOULD BE USED PRIMARILY IN ANTI-NARCOTICS AND "NATION
BUILDING" PROGRAMS. HE WOULD ALSO LOOK INTO THE
POSSIBILITY OF COMBINING TRUCKS, PATROL BOATS AND OTHER
EQUIPMENT INTO AN "ANTI-NARCOTICS PROJECT." HE ASKED
HOW LONG THE BOARD OF EXIM WOULD NEED TO MAKE A DECISION
ONCE IT HAD RECEIVED THIS PAPER. DR. RODRIGUEZ THOUGHT
THE BOARD WOULD NEED ABOUT A MONTH. SAMUDIO OFFERED TO
GO TO WASHINGTON TO TALK WITH MEMBERS OF THE BOARD.
AMBASSADOR GILLESPIE THOUGHT THAT WOULD BE A GOOD IDEA.

4. (U) EMBASSY COMMENT:

(1). FROM THE EMBASSY'S PERSPECTIVE, DR. RODRIGUEZ TRIP
WAS VERY SUCCESSFUL. WHILE NO IMMEDIATE PROGRESS WAS
MADE ON THE CARBOCOL PROBLEM, ALL THE PLAYERS NOW HAVE A
BETTER UNDERSTANDING OF EACH OTHER'S POSITION. EVERYONE
WANTS TO FIND A MUTUALLY ACCEPTABLE SOLUTION.
UNFORTUNATELY, CARBOCOL DOES NOT HAVE AN IMMEDIATE NEED

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FOR THE 1985 LOAN/GUARANTEE AND MAY BE ABLE TO FIND FINANCING FROM OTHER SUPPLIER COUNTRIES (E.G., CANADA FOR TRUCKS AND JAPAN FOR OTHER EQUIPMENT).

(2). THE IDEA OF USING EXIM GUARANTEES TO ACCESS NON-BANK FINANCING MAY TAKE SOME TIME TO CATCH ON, BUT WE THINK IT IS A PROPOSAL THAT COULD BE VERY USEFUL FOR COLOMBIA. THE EMBASSY WILL PURSUE THE IDEA FURTHER WITH THE MINISTRY OF FINANCE AND THE BANCO DE LA REPUBLICA.

(3). THE SEMINAR IDEA IS ALSO ANOTHER GOOD ONE. THE EMBASSY WILL BE SENDING A SEPARATE CABLE ON THIS SUGGESTING POSSIBLE SPONSORS AND HOW TO TIE IT INTO THE JULY BOGOTA INTERNATIONAL TRADE FAIR.

(4). DR. RODRIGUEZ WAS AT HER BEST WITH DEFENSE MINISTER SAMUDIO. AT LAST HE NOW UNDERSTANDS THAT JUST BECAUSE THE TRUCKS ARE CIVILIAN MODELS THAT DOES NOT SATISFY EXIM'S LEGAL REQUIREMENTS. HIS MINISTRY IS WORKING ON A NARCOTICS PLAN AND WILL BE PROVIDING ADDITIONAL INFORMATION ON THE USE OF THE TRUCKS.

(5). THIS REPORT WAS CLEARED BY DR. RODRIGUEZ.
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